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Compensating Foreign Service Personnel

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About This Report

Even a cursory reading of the daily newspaper points to the rapidly shifting patterns in international affairs. The Swiss franc, the deutschmark, and the yen have become increasingly important. Some of the so-called "developing countries" have joined the ranks of the wealthiest, while others have grown dangerously poor. Social and political unrest are everywhere.

Plainly, foreign service is far less attractive than it once was for Americans. The steady rise of anti-Americanism has eroded the psychic compensations, while reduced purchasing power of the dollar, magnified abroad, plus inflation at home has just about removed the financial advantages.

There have been recent developments, especially in Congress, concerning employment of Americans for service abroad. All of these developments have had some impact on foreign service compensation. The first Conference Board survey of overall compensation practice for expatriates was conducted in 1972.[1] Another study, concentrating on the foreign service premium, was published in 1975.[2] A third, containing data relating to the compensation of returning expatriates, was completed in 1976.[3] Recognizing that these reports were either obsolete at worst, or out-of-date at best, The Conference Board embarked on this study.

The preceding surveys included many companies that operated in only a few countries or regions abroad, and many of these had few expatriates among their staff. Also, the sample of companies in those reports were all manufacturers. There is a major difference in the design of this survey. This time, the Board approached 300 U.S.-based corporations with significant operations overseas, including representative manufacturers, banks, construction, commercial and other service companies. Of that number, 127 companies in 19 industry groups responded. Only four of the respondents have but a few expatriates in service. Because the compensation administration in those four companies is the result of individual negotiation, they were eliminated from the statistical comparison in this survey, and the statistical base for the tables in this report is 123 companies.

A direct comparison with the study conducted in 1972 is not possible because of the difference in the samples of companies participating, and the fact that this study is of much larger companies.

	Average Per Company	
	Current Survey	1972
Employment:		
U.S. Expatriates	137	16
Third-Country Nationals	93	6
Local Nationals	19,497	1,865
Number of countries in which it operates	49	15
Global Sales	$7 billion	$400 million
Sales due to foreign operations	33 percent	20 percent

However, comparing the current with the prior results obtained from companies with earnings of one half billion dollars or more in both studies, the following patterns emerge:

Basic Elements of the Foreign Service Compensation Package	1972 percent of 134 companies	1982 percent of 123 companies
Foreign service premium	89%	74%
Bonus plan	79	97
Cost-of-living allowance	96	97
Tax equalization allowance	90	98
Housing plan	86	94

It can be observed from these results that the prevalence of four of the five basic elements of the

[1]Burton W. Teague, *Compensating Key Personnel Overseas*. The Conference Board, Report No. 574, 1972.

[2]Burton W. Teague, *Extra Pay for Service Abroad*. The Conference Board, Report No. 665, 1975.

[3]Burton W. Teague, *Selecting and Orienting Staff for Service Overseas*. The Conference Board, Report No. 705, 1976.

foreign service compensation package has grown to the point where they are almost universal. The use of the foreign service premium has declined, although it is retained by a significant majority.

Another notable difference between the results of the two surveys is the degree to which companies are moving toward eliminating the distinction in treatment of the compensation of U.S. expatriates (USE's) and Third-Country Nationals (TCN's), a development which the following tabulation reflects.

It may also be noted from the results of the current survey that the basic patterns of compensation are becoming more uniform and being adopted almost universally. There are, however, distinctions in design and administration, the details of which are discussed in the chapters that follow.

	Percentage of Companies Extending Basic Compensation Elements to TCN's			
	1972		1982	
Elements	Percent	Number of Companies	Percent	Number of Companies
Foreign service premium. . .	37%	267	58%	110
Cost-of-living allowance . .	60	216	89	110
Incentive compensation.	72	211	81	110
Tax equalization allowance . .	51	188	81	110
Housing plan .	45	267	94	110

Foreword

Foreign operations are already significant—in some cases critical—to the growth and profits of a substantial number of U.S. companies. Judging from their plans for future growth, foreign ventures will get even greater emphasis. This growth strategy clearly places stress on staffing foreign operations with competent management and technical personnel.

Recruitment of local management talent by multinationals is increasing. But, for a number of reasons, few multinationals can—or, indeed, want to—rely wholly on locals to fill key positions. Expatriates and third-country nationals are sought to provide special competence and linkages.

As a result, multinational companies will continue to have problems planning and administering compensation for managers in locations where living costs, amenities, taxes and currencies differ greatly from that of the employee's home country.

For many years, The Conference Board has been tracking a variety of foreign service pay and benefit practices. Finally, in 1972, we assembled all the bits and pieces into a comprehensive analysis of the multinationals' response to the many special problems of sending people overseas.

This current update concentrates on those multinationals with the largest and most geographically diverse foreign operations. It points to the development of more universal policies regarding foreign service compensation. It underscores the considerable variations in practices and the need to adapt such policies to circumstances that are frequently unique.

For this information, The Conference Board thanks the many, many thoughtful respondents to our extensive inquiries.

James T. Mills
President

Chapter 1
Introduction

CONDUCTING BUSINESS abroad has never been easy. In the atmosphere prevalent today it is a task only for those who, "possess the stamina of a bull, the wisdom of Solomon and the patience of Job," according to one of the executives responsible for his company's human resources abroad. The multiplicity of regulations by governments at home and abroad, the ever-changing political focus, problems arising out of the changing flows of capital, and the undulating rates of currency exchange all force the expatriate international executive to be constantly alert, conducting close surveillance over the markets, the economy, and the political scene.

Moreover, all of this is on top of an accelerating dynamism in the basic technologies of most industries, together with aggressive competition from foreign-based international companies. (It is noted that the first 25 corporations on the *Fortune* list of the top foreign-based companies [as measured by sales] would displace many of the first 25 corporations on the *Fortune* 500 list of U.S.-based companies.)

The Need for Competent Managers

The climate abroad today calls for unusually gifted managers to direct a company's foreign operations. And the need is in depth—well into the middle-management level. First, they must have a sound knowledge of the technical factors involved. They must thoroughly understand and appreciate company policies and have the ability to adapt those, as well as the company's administrative practices, to the local scene. This is especially true in operations in developing countries, where management talent, though it may be available, is not in abundant supply.

In addition, they should have the ability to mix easily with alien peoples and cultures, have a breadth of interests beyond their narrow specialties, and have the capacity to organize people to get the job done while encouraging them to accumulate the skills to assume more advanced responsibility, since they are expected to train local nationals for higher management jobs. Men and women with those capabilities and personalities are not easy to find. To attract them and to hold them in foreign service, a unique compensation package has been evolved.

The Foreign Service Pay Package

There was a time in the not too distant past when an expatriate, returning from a career overseas, had become affluent—if not wealthy. With the proliferation of multiple income taxes, wealth taxes, value-added taxes and disparate rates of inflation and currency exchanges, not only is this not the case today, but in many instances the reverse is true. One expatriate put it this way: "I had built up a reasonably sound portfolio of stocks and bonds, I had a decent position in the company savings and incentive plans, and an ample bank account. But, after a few months in our U.S. headquarters, I thought I was going broke. My liquid asset position had been illusory. I had to buy a house, a car, furniture and equipment for the house, fresh clothing for the family, and a myriad of small items such as tools and supplies. At the then current prices my portfolio was just about wiped out. I would have been better off to have refused the foreign assignment and stayed home."

Alert to comments such as this from returnees, and complaints from expatriates still overseas, compensation professionals have developed compensation plans to meet the needs and expectations of their key expatriates. Generally there are three sets of plans: one for expatriates from the United States (USE's); one for expatriates drawn from other countries, third-country nationals (TCN's); and one for local national executives (LN's). Each class has a different set of needs, paradigms and expectations which, perforce, need different responses from the company. But there is a growing trend toward compensating all executives pretty much alike, regardless of their home base.

Table 1: Six Basic Elements of the Foreign Service Pay Package, by Industry Group

Industry Group	Number of Companies	ELEMENTS					
		Foreign Service Premium	Hardship	Cost-of-Living Allowance	Bonus	Tax Equalization Allowance	Housing
Aerospace	4	100%	75%	100%	75%	100%	100%
Automobile	9	89	78	78	89	89	89
Banks	6	83	100	100	100	100	100
Business Equipment	6	50	67	83	83	83	83
Chemical	10	60	70	80	90	90	70
Container	2	100	100	100	100	100	100
Drugs and Personal Health	15	40	73	100	100	100	100
Electrical Equipment	5	60	40	100	80	100	100
Electronic	8	75	88	100	88	100	100
Engineering and Construction	2	100	50	100	50	100	100
Machinery and Equipment	10	90	80	90	90	80	90
Food Processing and Service	9	44	56	100	100	100	100
Tools	2	0	0	50	100	100	50
Metals	5	60	60	100	100	100	80
Oil	12	100	58	100	100	100	100
Paper	3	100	34	100	100	100	34
Rubber	6	83	50	100	100	100	100
Textiles	2	100	50	100	100	50	100
Miscellaneous	11	73	64	91	100	91	100
Total	127	72%	67%	94%	94%	94%	92%

All compensation programs provide employee executives with base salary to meet current expenditures, an insurance program to protect them from the financial consequences of misfortune, a retirement plan, and some form of capital-building scheme to aid them in creating an estate appropriate to their status in the company.

The foreign service compensation plan must go beyond this. It usually includes: some premium to induce the executive to rip up his roots and transplant himself and his family to an alien culture; an additional premium or supplement if hardship is entailed in the area of assignment; an allowance to offset the perceived increased cost of maintaining a home-country life-style in the foreign location; some arrangement by which the expatriate is ensured against the effects of multiple income taxation, so that his tax bite does not exceed that which would have been levied had he remained at home; and some form of housing or housing allowance to offset the increased cost of appropriate shelter over that in the home country.

While the vast majority of the companies included in this survey include those basic elements in their foreign service compensation programs, not all do. There are differences in prevalence of the elements in different industries. Companies operating in a large number of countries, with large numbers of expatriate employees, view their needs differently from those companies operating in only a few countries with just a few expatriates.

Tables 1, 2 and 3 show the differences in the prevalence of the various elements of the foreign service pay package by industry, by geographic dispersion, and by the number of USE's in service, in that order. While there are differences, in only two cases are the differences statistically significant: (1) The foreign service premium is used more frequently by companies employing large numbers of USE's (coefficient of correlation, [r] = .55); (2) the use of the performance bonus is more prevalent in companies operating in a large number of countries (r = .52).

Table 4 shows the prevalence in the use of the elements in relation to the degree to which foreign sales enrich total sales. Usage of the foreign service premium tends to fall as the proportion of foreign-to-total sales rises. Though less obvious and within a very narrow range, the same is true of the cost-of-living allowance. The converse is true of the hardship allowance, the tax equalization allowance, and the housing allowance, although the last two are almost universal. The performance bonus shows no consistent trend, although that, too, is used by more than 90 percent of all companies. A discussion of the use of each of the elements and the reasons for it appears in the chapters devoted to the separate elements.

U.S. Expatriates

For the most part, companies regard the assignment of an American to a foreign job site to be temporary to fill an immediate and special need (66 percent). But more than half (54 percent) believe there will always be a need for a significant number of USE's in their foreign operations.

Table 2: Six Basic Elements of the Foreign Service Pay Package, by Geographic Dispersion

Number of Countries	Number of Companies	ELEMENTS					
		Foreign Service Premium	Hardship	Cost-of-Living Allowance	Bonus	Tax Equalization Allowance	Housing
100 +	19	58%	74%	95%	100%	100%	95%
90-99	1	100	100	100	100	100	100
80-89	1	0	100	100	100	100	100
70-79	7	71	86	100	100	100	100
60-69	2	50	50	50	100	50	50
50-59	14	79	71	100	93	86	93
40-49	13	77	85	92	100	92	100
30-39	12	83	67	100	100	100	92
20-29	25	64	60	92	88	96	84
10-19	17	88	69	100	88	100	94
5-9	7	86	57	100	100	100	86
Total	118	73%	69%	96%	95%	96%	92%

Table 3: Six Basic Elements of the Foreign Service Pay Package, by Number of U.S. Expatriates

Number of United States Expatriates	Number of Companies	ELEMENTS					
		Foreign Service Premium	Hardship	Cost-of-Living Allowance	Bonus	Tax Equalization Allowance	Housing
1,000 +	4	100%	50%	100%	75%	100%	100%
600-999	1	100	100	100	100	100	100
500-599	5	100	80	100	100	100	100
400-499	3	67	100	100	100	100	100
300-399	3	100	67	100	67	100	100
200-299	9	100	67	100	100	100	89
100-199	14	86	86	93	100	100	100
90-99	4	75	100	100	100	100	100
80-89	4	75	100	100	100	100	100
70-79	6	50	83	100	83	100	100
60-69	6	100	83	100	100	100	83
50-59	4	50	100	100	100	100	100
40-49	7	57	29	100	100	100	86
30-39	11	55	100	100	100	100	100
20-29	12	83	75	100	92	100	100
10-19	11	64	55	100	91	91	91
1-9	21	52	24	76	95	81	81
0	2	—	—	—	—	—	—
Total	127	72%	67%	94%	94%	94%	92%

Table 4: Six Basic Elements of the Foreign Service Pay Package, by Percent of Foreign to Total Sales

Percent Foreign to Total Sales	Number of Companies	ELEMENTS					
		Foreign Service Premium	Hardship	Cost-of-Living Allowance	Bonus	Tax Equalization Allowance	Housing
46-99½	22	68%	68%	95%	91%	100%	100%
36-45	20	55	75	95	100	100	95
30-35	24	71	75	96	96	100	88
20-29	21	76	71	96	100	90	90
2-19	22	86	50	100	91	91	91
Total	109	72%	68%	96%	95%	96%	93%

Compensation Administration

The majority of companies (61 percent) set the compensation policies and administer them at headquarters. A significant percentage of the companies surveyed, although they set the policies at headquarters, permit them to be administered either regionally or locally. The various combinations of policy formulation centers and administrative locations are shown in Table 5.

Basic salary changes for internationally transferred employees are generally based on policy and economic factors in the home country; but a number of companies consider factors in the host country as well. Of course, there are variations, depending on individual circumstances. (See box concerning variations.)

A few companies state they wish they could use more USE's, as they make up the basic expertise in their companies, and many state their field organizations request more of them. Nevertheless, a third of the companies believe USE's will be replaced by TCN's and LN's eventually, and some (6 percent) believe they will be replaced within a decade. In a few companies (9 percent), the acceptance of a foreign assignment embarks the employee on a foreign service career. In any event, a sizable proportion of the companies (41 percent) regard an assignment overseas to be a training and development period, preliminary to the assumption of greater responsibility in company headquarters.

Supply of Management Talent Overseas

While only 27 percent of the companies find it difficult to recruit Americans for service abroad, less than half (44 percent) say they have no difficulty. Offsetting this, 60 percent say they find the supply of local management adequate, and 35 percent state they are increasingly hiring TCN's for management jobs. Only 6 percent say their cadre of TCN's is short of requirements, while nearly half (48 percent) say their cadre of TCN's is adequate. Local management talent is in short supply in most areas, according to 26 percent of the companies.

Table 5: Factors Considered in Basic Salary Changes (123 Companies)

Factors in:	*United States Expatriates*	*Third-Country Nationals*
Home Country Only	72%	36%
Host Country Only	3	12
Combination, Host and Home Country	25	35
No Response	—	17

Compensation Policy

A bare majority (51 percent) of the surveyed companies just try to remain competitive in their foreign service compensation programs. Over one-third of these companies (36 percent) attempt to stay among the leaders in levels of compensation paid to their employees abroad. Exactly one-quarter of them try to be innovative in their approaches to compensation plans and procedures, while 37 percent do not. Decisions concerning compensation policy are based on the practices in the individual's home country by 47 percent of the companies in this survey.

Job Evaluation

Job evaluation (JE) programs have been in effect for decades in American industry. Therefore, it may come as

Variations in Administration of Basic Salary Changes

- TCN's are carried on U.S. salary ranges and schedules
- TCN's are carried on a composite international salary scale
- TCN's are considered to be USE's for salary administration purposes if they are on long-term assignment abroad. On temporary assignment, they are carried on home scales
- After three years, a TCN goes on the local scale
- TCN's are generally carried on home scales, but special arrangements are made to meet special circumstances, as in Brazil or Argentina
- TCN's get the higher of local or home scales
- Policies vary depending on length of tour of duty and location
- Consideration is given to how the expatriate relates to his local counterpart
- The host-country economy is the dominant consideration
- We pay in local currency, but track home or U.S. practice
- Short-term expatriates get the higher of home- or host-country scales
- We use worldwide composite salary data and guidelines
- On top of all other adjustments and allowances, 35 percent of the companies make extra payments, when necessary, to bring the expatriate's compensation up to a level necessary to equal the compensation of the expatriate's local counterpart, if the pay in home-country currency, after taxes, is less than the host-country salary rate for the position. The same is true in 15 percent of the companies in the case of USE's.

Table 6: Foreign Nationals Brought to the United States

Country of Origin	Number of Companies
United Kingdom	66
Canada	35
Australia	23
Germany	22
France	19
Belgium	15
Netherlands	12
Japan, South Africa, Brazil, Italy	9 (each)
Mexico	8
Switzerland	6
Ireland, Argentina	4 (each)
Singapore, Malaysia, Hong Kong	3 (each)
India, Portugal, Venezuela, Korea, Spain	2 (each)
Turkey, Guatemala, Thailand, Taiwan, Philippines, Luxembourg, Costa Rica, Austria, Nicaragua, Sweden, Denmark, Morocco	1 (each)

a disappointment to compensation purists to learn that only 69 percent of the companies have a complete JE program in the United States. Another 15 percent have such a program, but it is (on the average) 54 percent complete. Only 34 percent have worldwide programs, and on the average they are 80 percent complete. Another 31 percent have programs that are worldwide in scope, although they have local variations. Of the programs reported, 47 percent cover all management positions.

Foreign National Transfers

Many companies (71 percent) not only transfer Americans abroad, but they also bring foreign nationals—both TCN's and LN's—to the United States for extended assignments, as well as for training. At the time of this survey, they routinely bring the foreign nationals shown in Table 6 here. The average company has as many as 30 here at any one time.

But There Is Diversity

The relative uniformity of the general pattern of the foreign service pay package obscures the differences, which will emerge as each of the basic elements of the formula is considered in detail.

Chapter 2
The Foreign Service Premium (FSP)

THE FOREIGN SERVICE premium continues to be one of the principal elements of the overseas pay package. As defined in this report, it is a payment additional to salary and generally added to it directly, expressed as a percent of salary. In essence it is compensation just for accepting service in a foreign location, and is distinct from other allowances and perquisites designed to compensate for other specific purposes.

The avowed purpose of the premium is to attract and to encourage an employee into such service and to remain there until the assignment is completed. It may vary in amount from location to location, depending on the degree of hardship perceived, or it may be a flat rate payable to expatriates in the same amount in all foreign locations. Often companies that follow the latter practice have a separate "hardship allowance," which accomplishes the same ends, in that it is a payment of a supplement that varies from location to location, depending on the degree of perceived hardship.

Concepts, Pro and Con

FSP has been under attack for some years. A few consultants have vigorously opposed it as an obsolete form that is not cost-effective and is a vestige from the sailing ship days, when foreign service entailed considerable hardship, meant true isolation from family, friends and one's accustomed culture. It also exposed the expatriate to disease, physical danger from brigands, insurrections and sporadic wars. Travel then involved weeks, even months, overland and at sea.

Today, they maintain, with telecommunication services, air transport, effective health care almost universal, the isolation and the health risks have been greatly reduced; and as for physical danger, one is hardly safer in New York, Washington, Chicago or San Francisco.

The majority of the companies engaged in foreign operations have paid little heed to those arguments, believing that while the isolation and the risks have been reduced by modern technology, culture shock remains nonetheless. FSP gives tangible recognition to the added difficulty of doing business in an alien environment under different sets of regulations and laws in an unfamiliar language; it compensates for separation from family and friends; it recognizes the need for the expatriate and accompanying members of his or her family to adjust to foreign cultural and living patterns; and it encourages the employee to accept the assignment and remain on the job until it is completed.

Moreover, proponents say, those opposed to FSP have substituted other forms of compensation such as mobility allowances, hardship allowances, and so on, which merely do the job of the FSP under a different title—a distinction without a difference.

In rebuttal, opponents point out that the mobility allowance does encourage the employee to make the move abroad and it provides a large sum of money when it is needed the most—when moving the household and family. FSP does not provide enough money at the outset; probably provides too much after the expatriate has settled in overseas; and tends to hold the employee there beyond the needed time. Some companies have had difficulty in attracting expatriates to come home.

Whatever the arguments, pro or con, a very clear majority of the companies surveyed (74 percent) include FSP in their foreign service compensation plans; and 69 percent have separate hardship allowances. In addition, 11 percent have adopted the mobility allowance, and 3 percent have a reenlistment (in foreign service) allowance. Also, 8 percent of those companies that do not now have FSP are considering the option of adopting one.

Although, in the narrow traditional sense, FSP may have lost some ground in the last decade, a premium of some sort, by whatever name, is almost a universal practice in international compensation planning.

As Table 7 shows, the practice is extended to TCN's almost to the same extent as it is to USE's. There are differences, of course, based on realities. For example,

Table 7: Foreign Service Premium Administration

	Percent of Companies Paying			
	Number of Companies	United States Expatriates	Number of Companies	Third-Country Nationals
Pay FSP for service abroad	123	74%	110[a]	68%
Paid as:				
Fixed sum	91	1%	75	0%
Percent of base salary	91	90	75	90
Declining percent as base increases	91	9%	75	10%
Maxima are set	91	49%	75	58%
Incremental payments are:				
Lump-sum quarterly or annually	91	8%	75	9%
Added to base and paid currently	91	92%	75	91%
FSP is added to base in calculating pension plan accruals	91	23%	75	23%
Amount of FSP varies by location	91	46%	75	51%
Other similar allowances are:				
Acceptance allowance	123	5%	110	5%
Mobility allowance	123	11%	110	11%
Completion bonus	123	10%	110	10%
Reenlistment bonus	123	3%	110	3%
Hardship allowance	123	69%	110	72%
Hardship allowance is implicit in FSP	91	35%	75	38%

[a]13 Companies do not employ TCN's.

the culture shock to a Frenchman serving in Belgium is no greater than that of a native of Seattle serving in Vancouver; a Portuguese has no language problem in Brazil, and so on. But the fundamentals of FSP are pretty much the same for both classes of personnel, as the table reflects.

The Elements of Hardship

The reasons companies adopt a variable FSP and/or a hardship allowance are directly related to the factors of hardship or difficulty in working and living in a particular foreign location. Some companies detail the factors and weight them mathematically, while others simply apply subjective management judgment in selecting the appropriate premium rate. Still others use ratings provided by the U.S. State Department Allowances Staff, or those offered by consultants they engage for the purpose.

Table 8: Factors Considered In Setting Variable FSP Rates or Hardship Allowance Payments (63 Companies)

	Weight Attached To Factor Percent of Companies			
Factors	Heavy	Moderate	Light	None
Language difficulty	13%	32%	31%	24%
Alien culture	25	51	14	10
Physical safety	81	11	5	3
Health risk	75	14	8	3
Housing adequacy	25	44	21	10
Political stability	63	24	10	3
Social amenities	13	46	32	9
Climate	27	46	22	5
Recreational facilities	10	37	43	10

Of the 91 companies with FSP or hardship allowance plans, 63 provided the information from which Table 8 was produced. It is clear that the majority give heavy weight in their calculation of the premium or allowance to physical safety, health risk, and political stability; moderate weight to alien culture factors; the presence or absence of social amenities and climate; and recreational facilities are generally given only light consideration.

In addition to those factors some companies add isolation; availability of quality educational facilities and goods and services; communications; and one company adds a factor of whether the employee's family may go along.

One company has set only two classes of hardship based on the following factors: physical safety, health risk, climate and isolation. They grant a 5 percent premium for each factor present in the area. If the factor is heavily present, they grant 10 percent. The resulting premium may vary, therefore, from 0 to 40 percent.

Some Variations

The tables and the data imply a uniformity which does not exist. There are a great many variations in the plans of the individual companies. Here are a few:

(1) Some companies pay a flat 15 percent, regardless of location of the job site, with no maximum;

(2) Maxima are set by many companies, based on the base salary, from a low of $30,000 per year in one company to a high of $91,000 in another;

(3) The maximum premium-bearing salary is determined by the average middle-management salary by one company, and the maximum changes annually with the pay scales in another;

(4) Whatever the premium may be for an expatriate, it is frozen in the fourth year of foreign service by one company, no matter what the employee's base salary may become later;

(5) Another company pays 15 percent for intercontinental transfers, 10 percent for intracontinental transfers;

(6) In some instances, the premiums are variable for USE's but flat rates for TCN's; in others the reverse is true.

For a listing of typical variable rates, see Appendix A. For some typical formula plans, see Appendix B.

The Phaseout

Of the 91 companies that have a FSP element in their compensation formula for expatriates, 11 percent phase it out during the period the expatriate is in foreign service. Here is how some of the companies do it:

(1) The FSP is terminated after five years;

(2) FSP is reduced by 20 percent per year after three years;

(3) It is reduced by one-third in each of the second, fourth and fifth years;

(4) In the fourth year it is reduced to 75 percent of the total premium, to 50 percent in the fifth year, and to zero in the sixth year;

(5) Only those on temporary assignment get FSP. "Temporary" is defined as under three years. After three years - no premium;

(6) After the fifth year, the premium is reduced by one-third each subsequent year;

(7) FSP is reduced to half after three years, to zero after five years;

(8) FSP is phased out incrementally over eight years in foreign service.

Is FSP Satisfactory?

Despite the fact that FSP has been in existence for decades, companies are still adjusting it. Although the majority are satisfied with their plan (or the absence of it if they elect not to adopt one) many are considering changes. Here are some of them:

(1) Ten companies are planning either to adopt FSP for the first time or to increase the rates;

Table 9: Company Characteristics, FSP as against No FSP

Characteristic	FSP Companies (91)	No FSP Companies (36)
Number of USE's employed	62	33
Number of TCN's employed	25	15
Number of LN's employed	6300	7805
Number of countries in which it operates	35	40
Sales ($ millions)	3,176	2,049
Percent foreign sales bears to total	29%	35%
Ratio, USE's to TCN's	2.5/1	2.2/1
Ratio, USE's to LN's	1/102	1/237
Foreign sales per employee ($ thousands)	140	90

(2) Four companies plan to adopt a phaseout system;

(3) Three companies are planning to eliminate the phaseout system;

(4) Two companies are planning to adopt a mobility allowance as a substitute for FSP;

(5) One company plans to change from a variable rate premium to a uniform rate;

(6) Another plans to change from a uniform to a variable rate FSP;

(7) One company hopes to scale down the rates in Europe;

(8) Another expects to set maxima for the FSP;

(9) One company is exploring the possibility of offering free housing in lieu of FSP;

(10) Another wants to set the rates for each city in which it has operations instead of by countries or regions, as at present;

(11) Another wants to increase the rates in isolated areas;

(12) Adding a front-end bonus at the time the expatriate departs for foreign service is the goal of another company;

(13) And still another expects to include a repatriation bonus and a hardship allowance.

Company Characteristics, FSP As Against No FSP

There are marked distinctions between the characteristics of the typical company that includes FSP in the foreign service pay package and the typical company that does not (determined by averaging). The FSP company is over one-and-a-half times larger (measured by global sales), employs almost twice the number of USE's, and one and two-thirds as many TCN's, but it has 19 percent fewer LN's. While its ratio of USE's to TCN's is not significantly different, the ratio of USE's to LN's is less

than half that of the no-FSP company. The percent of foreign sales of total sales (a mark of the importance of foreign operations to the company) of the FSP company is 17 percent smaller, and it operates in 14 percent fewer countries than the no-FSP company (see Table 9).

It has been observed in prior studies that capital-intensive companies tend to employ more USE's than labor-intensive companies, and that the more USE's, the more likely it is that a company will have an FSP plan. That observation has been confirmed in this survey.

It appears that the more foreign-oriented a company is, the greater the geographic dispersion of its operations, and the more labor-intensive it is, the fewer expatriates it will employ, and the less likely it will be to need or have an interest in FSP. Conversely, the more capital-intensive companies will employ more expatriates and, therefore, have a greater need and interest in the premium approach to international compensation practice.

Chapter 3

The Cost-of-Living Allowance (COLA)

IN MOST foreign locations an expatriate faces higher costs in maintaining a style of living appropriate to his or her status than would have been the case at home. To counteract this financial burden, or at least lighten it, most companies have adopted some form of allowance mechanism for inclusion in the foreign service compensation formula.

The concept is simple, but the administration is extremely complex and little understood by the expatriate beneficiaries. It is complex in that it involves the interrelation of the price movement of consumer items in the expatriate's home country with that of the host country. It is not a mere comparison of the consumer price indexes of the two countries. Decisions must be reached relative to the style of living, the standard of living, and the spendable portion of income appropriate to the expatriate's level of earnings.

An Example of the Calculation by One Company

A supplemental salary allowance is paid to expatriate employees in foreign locations when the cost of living is determined to be 2½ percent higher than that in the United States or other home country. The differential is calculated twice per year and must result in a showing that it has increased or decreased by 2½ percent before any change is made in the differential. It will be applied to the spendable portion of each employee's base salary in accordance with the following tabulation (one of several varied formats adopted by companies):

An Example - Spendable Income Table

Base Salary	Spendable Percent
up to $15,000	80%
$15,000-$21,000	75
$21,000-$28,000	70
$28,000-$38,000	65
over $38,000	60

Each individual calculation is according to the following formula:
(Base salary × Spendable percent) × cost-of-living differential = Allowance

Employee Acceptance

The general lack of understanding on the part of the beneficiaries of COLA is not due to the formula. That is straightforward enough. It is the variables that go into the mathematics that raise the questions. The selection of the style of living, the standards set, the contents of the "market basket" that is priced, and the spendable portion of income or base salary are all based on managerial and statistical judgments, none of which may be truly factual in individual cases. As a result, the variables can be, and often are, questioned by expatriates. Generally there are few or no questions when the allowance rises. The cries of disbelief occur when it is reduced. It is difficult to convince an employee whose cost-of-living is actually rising in the host country that his allowance should be reduced because the cost-of-living is rising faster in his home country.

Another difficulty that may never be overcome is the fact that the relative costs cannot be easily monitored on a daily, weekly or even a monthly basis—it is too expensive. Therefore, the allowance is almost never in true equilibrium—in countries with high-velocity inflation, the relative indexes are obsolete to some degree almost on the day they are put into effect. Further, the whole mechanism is affected by floating currencies which reflect fiscal, economic and political forces over which the companies have no control.

Despite the complexities, problems in acceptance, and admitted shortcomings, COLA does the job, on balance, and is an element in virtually every international compensation package. Of the companies included in this survey, 97 percent have such plans. The remaining 3

percent are companies with few expatriates. It would not be cost-effective for them to administer such a complex plan for just a few employees.

COLA for TCN's

Of the 110 companies in the survey that employ TCN's, 89 percent extend COLA to them. And of that group, the majority (69 percent) extend the identical plan that is applied to USE's. An additional 11 percent apply the same mechanism but with different data, based on the individual's home country, while 3 percent treat TCN's as LN's for this purpose. The remaining 17 percent have a variety of other approaches, such as:

(1) Career TCN's are treated as USE's;

(2) Temporary TCNs' compensation is related to their home countries;

(3) If COLA data are not readily available, salaries are adjusted to compensate;

(4) The level of allowance for TCN's is based on in-house studies;

(5) TCN allowances are set at the time of transfer;

(6) TCN allowances are based on local management judgment;

(7) TCN allowances are individually negotiated;

(8) TCN allowances are adjusted to give them the same purchasing power of the spendable portion of their earnings as that of the USE's;

(9) The TCN allowances are reduced somewhat if the transfer is on the same continent as the TCN's home country.

Compiling the Data

The job of collecting the data necessary to arrive at an index upon which a proper allowance can be developed is a time-consuming, complex, costly and tedious process. How tedious can be illustrated by the methodology of the U.S. State Department Allowances Staff, which sets allowances for all U.S. government employees overseas. That staff compiles price schedules of approximately 100 items generally purchased by American consumers. The local prices of most items in two outlets where an American would trade are compared with similar prices in outlets in Washington, D.C. "Use factors" are worked into the data in an attempt to determine the probable items and quantities an American would purchase to maintain his life-style in a particular foreign post.

Although some companies undertake to develop such data on their own, most rely on outside help. The data compiled by the State Department are available to private corporations, but the majority do not rely on that data. While it may be adequate for government employees, most feel it does not correctly reflect the cost-of-living of personnel in the private sector; and it does not help in the case of TCN's. Table 10 shows the sources of help used by the companies in this study:

Table 10: Sources of COLA Data

Source	Percent of Companies Using	
	USE's	TCN's
Consultants	77%	69%
State Department	10	3
The Conference Board	7	8
Other (or multiple)	3	18
In-house surveys	3	2

The number of consultants utilized by the responding companies is so great and their services so varied they are not listed separately. Some serve so few companies their inclusion is not meaningful. Moreover, many do not compile their own data but rely on such resources as the United Nations, the U.S. State Department, The Conference Board, and other economic research organizations.

Frequency of Change in COLA

Given the ponderous amount of detail involved, the most frequent change feasible is monthly. Quarterly changes are less burdensome and more realistic in the views of most companies, and semiannually is often enough in some countries. Annual review of the allowance is a bit too long for most.

Some companies do not set specific times for their COLA reviews. They make them when some notable change in the relative economies triggers the review, that is, when the consumer price indexes separate by a given percentage—4½ percent or 5 percent, for example. Some make the changes when their consultants send them fresh data. Table 11 shows the prevalence of the various options.

Since changes in the allowance cannot be frequent enough in all cases to assure all expatriates absolute equity everywhere, a significant minority of the firms make the adjustments in the allowance retroactive (37 percent for USE's, 38 percent for TCN's); and, in addition, almost half of the firms have a separate plan to protect the expatriate against loss due to fluctuating rates of currency exchange (ROE)—45 percent for USE's, 42 percent for TCN's. This assistance may be triggered by changes in the ROE of 1 percent, 2 percent, 2½ percent, or some other standard. Some firms guarantee an ROE on that portion of his company income determined to be

Table 11: Frequency of COLA Reviews

Period	Percent of Companies	
	USE's	TCN's
Quarterly	33%	26%
Monthly	18%	15%
Annually	11%	14%
Other (and variable)	38%	45%

"spendable" neither less nor greater than that in effect at the time the expatriate was assigned abroad.

How COLA Is Paid

Most of the firms in this survey pay the allowance in local currency (56 percent for USE's, 55 percent for TCN's). Where the law allows it, 18 companies split the payroll between home- and host-country currencies. Six companies pay TCN's in U.S. dollars; two vary the practice, depending on local conditions; and one gives the employee the option to elect the portion of pay to be received in each of the currencies. In another company, the currency of payment depends on the amount of salaried income the employee draws in local currency.

Other Employee Costs

Housing costs and income taxes are not included in COLA data. Certain other costs faced by nearly all expatriates are also eliminated from the calculations of COLA. They are, however, covered by special arrangement and usually by direct financial assistance. The primary items (other than housing and income taxes) are:

ITEM	Percent of Companies Defraying Cost	
	USE's	TCN's
Children's education	96%	93%
Auto purchase	63	65
Medical care	46	45
Dental care	37	31

Is COLA Satisfactory?

The personnel who administer COLA defend it as the best possible means of accomplishing the goal of "keeping the employee whole."

It is true that no better system has yet been devised. But that does not prevent complaints. Here are a few:

(1) Using a statistical base oriented to Americans is not appropriate for TCN's; yet it is too costly to evaluate all of the countries our TCN's represent;

(2) The data are never timely. There is often a drag of months—meanwhile our employees are hurting;

(3) The whole device creates a negative reaction—a deterrent to good morale. It never seems enough, soon enough;

(4) It is far too complex for our employees to understand. Even if they did, they would not agree with the "balance sheet approach" to compensation. It's a constant educational problem;

(5) The assumptions on spendables, the weights given to the multiplicity of items in the market basket, even the survey techniques and the mathematics are open to question, and are questioned by expatriates. Satisfactory answers are hard to come by.

Despite these complaints, fair or not, the vast majority of the firms responding to this survey are satisfied, on balance, with COLA (76 percent - USE's, 70 percent - TCN's) and they believe they have done all they reasonably may do under the circumstances. (And, it might be added, that it would be hard to find an expatriate who would advocate a total cancellation of the allowance.)

Cost-of-Living Salary Adjustments

In addition to COLA, many firms (60 percent) also extend "cost-of-living" salary adjustments granted in the home country to U.S. expatriates. A good number (47 percent) extend the same treatment to TCN's. And a few grant local cost-of-living salary adjustments to USE's (8 percent) and TCN's (15 percent).

Such a practice would seem to be a duplication. It is not. When cost-of-living salary adjustments are granted in the home country, the whole scale of compensation rises. Many companies are committed to the "balance sheet" approach to compensation. That means, in brief, that no matter where in the world the employee is assigned, his net "spendable" after-tax income will be neither more nor less than that of his counterparts elsewhere in the company's operations, excepting the foreign service premium and hardship allowances. If the expatriate's counterpart in the home country receives such a salary raise (not on merit or promotion), it is only equitable, under the balance-sheet doctrine, that the expatriate also receive a like adjustment. COLA is designed only to offset the differential between home- and host-country living costs.

The same argument cannot be made for extending host-country cost-of-living salary adjustments to expatriates. It is very much a minority practice. However, many firms treat TCN's as local nationals; or, when they are transferred from a low- to a high-salary scale country, they grant them an allowance to bring them up to the income level of their local counterparts. In such cases, extending the local cost-of-living salary adjustment to TCN's is not only equitable, it is necessary. The same would be true of USE's carried on split payrolls, part in the home country, part in the host country.

Chapter 4
Housing

HOUSING for employees has been a troublesome subject for corporate management throughout industrial history. Providing employee housing was an accepted practice in the United States in the early 1900's, but fell into disrepute in the middle of the century—due to some abuses related to so-called company towns—and the practice was almost, but not quite, eliminated.

More recently, housing or housing assistance has become not only respectable, but necessary, as the management desire for executive mobility has been confronted by the problems of those executives in purchasing new homes at the new job site; selling the former residence; financing those transactions; and meeting the frustrations and expenses inherent in those transactions, magnified as they are by inflated prices, accelerating costs in construction, and ever-higher mortgage interest rates, all acting in concert.

All of those frustrations have been present in the cases of executives eligible for transfer overseas. The practice of providing housing or housing assistance for employees in foreign service has never been in disrepute. Without it, except in the rarest of instances, there would be few transfers abroad. Financial planners have been virtually unanimous in stating that one of the best investments an executive can make is a home, for tax as well as for capital appreciation reasons. Although the bloom may now be somewhat off that rose, it still smells sweet. Abandoning that investment looms as a big negative in the mind of an executive considering an offer of a foreign assignment.

And finding satisfactory housing in foreign locations is far from easy. Few tourists who visit abroad can appreciate how difficult it is to locate housing equipped with all the modern conveniences most urban Americans have come to regard as necessities. They are there, of course, but by no means abundant. And those that are there have been taken over by diplomats and the executives who preceded them to the area. Rents and prices are set accordingly.

It is small wonder, then, that the vast majority of the firms in this survey have adopted a housing assistance plan (94 percent for USE's, 94 percent for TCN's). The few firms that do not have a formal plan have few expatriates and work the problems out on an ad hoc basis. A few firms even include local nationals in the plans when the need arises in specific locations (15 percent).

Although the practice is almost unanimous, the administration and even the concepts behind the plans are not. Some firms set allowances for housing to offset the amount of rent believed to exceed the rent required for similar housing in the home country; others pay the full rent and utilities; still others provide company-owned or -rented housing; and some sign the lease and pay the rent on behalf of the expatriate. None of the firms in this study guarantees the rent (a form of cosigned lease). Table 12 reflects the prevalence of the various practices.

Some firms follow different practices in different locations, depending upon which approach is the most cost-effective. For example, one extraction firm provides

Table 12: Housing Assistance Methods

	Percent Following[1]		
Method	*USE's Number of Companies (116)*	*TCN's Number of Companies (103)*	*LN's Number of Companies (18)*
Differential allowance	92%	89%	39%
Company-Owned housing	14	15	22
Full rent and utilities paid	13	15	33
Rent paid by company	7	8	17

[1]Details do not add to 100 percent because of duplicate answers.

company-built housing in one of their camp sites; provides company-leased accommodations in a capital city where housing is extremely tight; full rent in another location; and differential allowances in most of the rest of its other 130 assignment areas.

Controlling Costs, Determining Deductibles

The opportunity for abuse and excess in the administration of foreign service housing plans is ever-present. Although lower quality housing than the expatriate would occupy at home is often the case, there are some horror stories in circulation. One, often repeated, is of an executive who visited Rome and found senior clerk-level personnel residing in palatial villas just outside the city.

Despite such tales, most companies rely on the good judgment of local management and the honesty of their expatriates, who have been given rigorous testing in the selection process. Some companies allow the expatriates to select their own quarters, but the suitability and the cost are reviewed by local management. Some permit the expatriate to make the selection without review. Others use the State Department guidelines in setting the allowance. Some conduct surveys from time to time to obtain current factual data. Still others rely on data supplied by agencies of host governments, the International Monetary Fund, Business International, local management centers, the National Foreign Trade Council, private consultants, and/or a combination of many of these. Table 13 shows the various methods of controlling gross housing rents and the prevalence of each method.

Although the majority of the firms (60 percent for USE's, 53 percent for TCN's) accept 100 percent of the costs of housing in at least some of the cases and locations, nearly all are faced with the problem of determining the equitable amount to use for the "presumed home-country cost of shelter," which is used as the deductible in the allowance formula in some locations.

The majority use the amounts indicated on some "spendable income schedule" (spending norms by salary level, marital status, and family size) provided by consultants, government agencies, or other economic data source (53 percent for USE's, 46 percent for TCN's). A sizable minority (33 percent for USE's, 23 percent for TCN's) use a fixed percentage of the expatriate's base salary as the deductible. Over half of these (55 percent) use the traditional 15 percent of base for the purpose. That percentage was generally considered the standard amount a person would pay out of income for shelter. In today's real estate market, property tax, and mortgage interest rate environment, 15 percent is undoubtedly most generous.

Table 13: Gross Rental Cost-Control Methods[1]

Method	*USE's (116 Companies)*	*TCN's (103 Companies)*
Management reviews employee selection	72%	74%
Advice of consultants	36	36
Surveys of employees	10	12
State Department guidelines	10	10
Surveys of other companies	8	9
Employee selects without review	1	1
Other	4	5

[1]Details do not add to 100 percent because of multiple responses.

Some of the other rates in use are:

(1) 10, 12, 12½, and 16 percent;

(2) Sliding scale - from 11 to 20 percent, depending on income or base salary;

(3) 10 percent - single, 15 percent married;

(4) 15 percent on the first $35,000 of base salary, 11¼ percent on the next $45,000 per year; then---7½ percent up to $50,000 of base salary, maximum $562.50 per month;

(5) A range from 10 to 17 percent, average 13 percent;

(6) 10 percent to a maximum base salary of $50,000;

(7) 10 percent to a maximum of $75,000 base salary;

(8) A range of 17 to 24 percent;

(9) 18 percent on the first $15,000, 15 percent on the next $15,000, and 10 percent on the next $30,000.

Some companies just use their best estimates of presumed home-country shelter cost. One company conducts periodic surveys of its employees located in central towns and cities throughout the central United States and uses the results of the survey as a guide in determining "presumed home-country shelter costs." The approach of another company is to determine the deductible by expecting the employee to absorb 25 percent of the actual cost of rental, plus 6 percent of his base salary. Another company expects the expatriate to absorb the lesser of 20 percent of base salary or $5,000 per year.

The House They Leave Behind

In more stable times, most expatriates simply sold their residences before departure in the expectation of being able either to upgrade their homes on return or, at worst, to be able to obtain comparable homes on comparable terms when they returned home permanently.

Under present market conditions such an expectation is far from realistic. As a consequence, the majority of firms (80 percent for USE's, 65 percent for TCN's) encourage their expatriates to retain ownership of their

homes. Similarly, they discourage them from buying a house while abroad (85 percent for USE's, 80 percent for TCN's). In addition to pre-departure briefing, the encouragement to retain the home-country house is in the form of financial assistance. The discouragement from buying abroad is by way of withholding financial assistance.

The types of assistance given and the prevalence of each is shown in Table 14.

Some of the variations in assistance given to expatriates in the management of the properties they leave behind are:

(1) If the house is vacant, pay up to the equivalent of one month's base salary per year for maintenance, plus up to three months' base salary for mortgage principal and interest payments, taxes and insurance (PITI);

(2) Pay expatriate a lump sum based on the appraised value of the house;

(3) Pay a bonus to retain the house, payable in a lump sum on completion of the tour of duty;

(4) Pay a lump sum up front, equal to 4 percent of the appraised value in each of the first two years abroad, and 20 percent of that sum each year thereafter;

(5) Reimburse for the difference between mortgage interest plus maintenance, less rental income, if any;

(6) Pay taxes, insurance, utilities, maintenance and any management fee for 120 days;

(7) Pay legal fee for lease, or interest and taxes for three months if vacant;

(8) Pay 80 percent of the market rent value, plus 7 percent of the appraised value, if vacant;

(9) Pay up to six months' lost rent in any year when vacant;

(10) The company absorbs half of the loss if the house is not rented or is under-rented;

(11) Pay for the cost of property management and guarantee the rent for six years.

As a further incentive, rental income is generally disregarded when setting the allowance for shelter in the host country.

Table 14: Types of Assistance—Retained Homes

	Percent of Companies[1]	
Assistance	*USE's 123 Companies*	*TCN's 110 Companies*
Pay rental agent's fee	63%	48%
Arrange property maintenance if vacant	42	27
Arrange rental	41	28
Arrange payment of taxes and insurance	13	9
Other	30	18

[1]Details do not add to 100 percent because of multiple answers.

Are the Housing Plans Satisfactory?

Obviously the allowances and other forms of financial assistance to expatriates for housing are costly. Are they worth it? The vast majority of the firms included in this survey say, Yes! (85 percent for USE's, 79 percent for TCN's). Despite the cost, the practice of paying allowances for housing overseas is just about universal; and most firms offer financial help for the home left behind. And, despite the cost, only a minority have set maxima (22 percent for USE's, 17 percent for TCN's).

There are, of course, criticisms, even of this widely accepted practice. Here are some of the most frequently heard:

(1) The validity of the data base is questionable and what there is is hardly current;

(2) The system has to be monitored constantly; it takes as much time as would a case-by-case method;

(3) It is complex; few expatriates understand it fully.

While most of the firms consider housing plans not only desirable but necessary, all are at the same time seeking alternatives to achieve two apparently incompatible objectives—reduced costs and more flexible options.

Chapter 5
Income Tax Protection or Equalization

THE INCOME TAX is one of the largest and least satisfying of all of the expenses of employees the world over. In the case of USE's, it is doubly so, since the United States government alone taxes the income of its citizens earned in foreign countries. And, of course, all but a very few host countries also tax the same income. While the effect of the double bite is ameliorated to some extent by the "foreign tax credit" provisions of the U.S. tax laws, it is sufficiently painful to operate as a disincentive in the acceptance of a foreign assignment.

Until 1978, U.S. citizens working abroad were able to exclude up to $20,000 of foreign earned income if they were bona fide residents for one full calendar year of a foreign country, or if they were present in a foreign country 510 days out of 18 months. If they were resident abroad for a period of three years or more, the exclusion was increased to $25,000.

The Foreign Earned Income Act

On the theory that there was some inequity in the tax treatment of USE's and employees in domestic operations, the Congress passed the Foreign Earned Income Act of 1978 (FEIA), destroying the exclusion (except in extreme hardship areas where the expatriate lives in a "camp" in accommodations provided by the employing company, in which case the exclusion of $20,000 was allowed). In place of the exclusion a highly involved system of deductions for "excess living costs in foreign countries" was substituted. That included:

(1) A qualified cost-of-living differential;
(2) A qualified housing expense;
(3) A qualified schooling expense (for children);
(4) A qualified home-leave travel expense, which did not include the cost of room and board, and;
(5) A qualified hardship-area deduction.

The Internal Revenue Service issued detailed regulations and tables defining and delineating that which was "qualified" and setting maximum limits. The State Department "Post Allowance" schedule indicated which of the areas could be considered hardship areas (those bearing a "post allowance" of 15 percent or more).

The congressional intent apparently was to provide deductions from income just about equal to the allowances provided by the employing companies. However, since the standard set by the IRS was the U.S. Government salary level of Step 1 of GS 14 (now at $37,871) many USE's found their allowances added significant sums to their taxable income.

Predictably, the FEIA had a negative effect on the employment of U.S. citizens abroad, the competitiveness of American based multinational companies and even, indirectly, American exports.

The General Accounting Office conducted an inquiry into those effects and filed a report which encouraged the Congress to amend the law again.[1] Among their findings was the fact that in virtually all foreign countries "the difference between the tax reimbursements made by companies for Americans and TCN's contributed to the relative costliness of employing Americans." The significance was most pronounced when comparing Americans with French and West Germans. The before-tax compensation of the other two groups of nationals generally exceeds that of Americans but Americans are more costly after tax. There follows a comparison of the tax reimbursement cost for married employees (expressed as a percent of total compensation) of Americans and the average of selected TCN's from Canada, England, France, Germany and Japan (the nationals most competitive in technical and managerial know-how) in six foreign countries picked for the variety of local tax effects:

[1]United States General Accounting Office, *American Employment Abroad Discouraged by U.S. Income Tax Laws.* Report to The Congress of the United States, Washington, D.C., February 27, 1981.

Country	USE's	TCN's
Brazil	16.4%	16.6%
Hong Kong	13.3	1.9
Japan	16.8	18.6
Saudi Arabia	13.1	0.0
United Kingdom	14.3	6.9
Venezuela	11.9	5.5

The Economic Recovery Tax Act

The Economic Recovery Tax Act of 1981 restored the concept of exclusions of significant portions of earned foreign income and went much further. Effective in 1982, individuals who meet the foreign residence or the foreign presence test may elect to exclude $75,000 of foreign earned income from income subject to U.S. tax. That exclusion is increased in increments of $5,000 each year until 1986, when the exclusion election becomes $95,000. For married couples filing joint returns, the exclusion is computed separately for the earnings of each. An additional exclusion may be elected based on extra housing expense in excess of that which is considered reasonable. What is reasonable in IRS terms is based on the same Step 1 of GS 14 in the U.S. government pay scale, currently resulting in a figure of $6,059 for housing, utilities and insurance.

This Act is good news more for the employing companies than for USE's, since 98 percent of the firms in this survey reimburse their USE's for the total U.S. and foreign tax costs which exceed the estimated U.S. tax on their hypothetical income had they remained at home. The majority of the companies (81 percent) do the same for their TCN's. With very sizable exclusions in prospect down the road, the combined tax of many USE's will be substantially reduced, if not eradicated. But that is not all. The former tax rules were so convoluted that most companies had to engage expensive tax-return preparation consultants just to determine the tax liability of their USE's. Future tax return preparation should be greatly simplified.

Tax Equalization Allowance Still Necessary

This will not mean the end of the need for a tax protection or equalization plan, however. While the exclusion of $75,000 may seem enough to wipe out the U.S. tax liability of some USE's, many will remain on the U.S. tax rolls, and all will be subject to highly progressive foreign taxes. Income subject to tax for expatriates includes most of the payments under plans discussed in this report and more. The General Accounting Office (GAO) determined the following average income supplements from all allowances for USE's in the same six countries referred to above:

	Married Person	
Country	Average Total Allowance	TEA Portion
Brazil	$62,343	$22,724
Hong Kong	70,433	18,775
Japan	82,264	29,131
Saudi Arabia	58,836	18,889
United Kingdom	55,648	19,734
Venezuela	54,913	18,413

And those sums do not include the foreign service premiums and hardship allowances. They do include schooling costs, home-leave transportation, housing, cost-of-living allowance, tax equalization reimbursement under the TEA plans in effect under FEIA. All of these payments are designed just to offset the excess living costs abroad, but are items subject to income tax nonetheless.

The GAO study determined that the average base salary for USE's was about $45,000 per year. It is easy to see that with a premium of from 15 to 20 percent and the other allowances (other than TEA) averaging about $43,000 per year, not all USE's will escape U.S. income tax altogether, and heavy foreign tax not at all.

Many foreign jurisdictions tax the worldwide incomes of their resident aliens, as does the United States. So an expatriate's personal income from noncompany sources may also be subject to foreign tax. Almost half (48 percent) of the companies take personal noncompany income into account in determining the assistance to be extended to the expatriate under their TEA plans. Some limit the amount in nominal dollars (e.g., $5,000) and others set the limits as a percent of base salary. One company pays all of the U.S. tax attributable to all overbase allowances, plus the differential tax on noncompany income that results from bracket jump due to the inclusion of the overbase payments.

The items that are included in their considerations and the percentage of companies that include them are shown in the tabulation below:

Income Items Considered
Tax Equalization Allowances

ITEMS	Percent of Companies
Base salary	98%
Foreign service premium	74
Hardship allowance	78
Incentive bonus	88
Shelter and utilities allowance	90
COLA	90
Educational assistance	88
Automobile purchase assistance	58
Home-leave expenses	85
Income tax reimbursement	85
Personal (noncompany) income	48

In determining the income subject to hypothetical tax in the home country, base salary is included by all of the companies with TEA plans, of course. Only 11 percent include the foreign service premium, and only 9 percent the hardship allowance. But the incentive bonus is included by 80 percent. State and municipal taxes are taken into consideration by 41 percent.

The differences in the resulting allowances are illustrated by the following fictitious examples:

Assumptions:	
Base salary	$40,000
FSP	8,000
Allowances and perquisites	32,000
Tax reimbursement (1981-Paid in 1982)	20,000
Performance bonus	2,000
Personal income	5,000
Overseas deductibles	20,000
Foreign tax	30,000

IF HYPOTHETICAL TAX IS BASED ON		TEA IS	
	Federal tax on base		$25,000
	Federal, state and city tax on base		24,000
	Federal tax on base plus bonus		23,000
	Federal, state and city tax on base, plus bonus		21,500
	Federal tax on base, plus bonus, plus personal income		15,000
	Federal, state and city tax on base, plus bonus, plus personal income		9,000

Chapter 6
Other "Fringe" Benefits

THERE IS NO totally satisfactory definition of a "fringe" benefit. That which is "fringe" to one person may be a benefit of prime importance to another. The plans that have been lumped together in this chapter are those which are triggered by the advent of some event or condition, and for most are in the nature of deferred compensation. They are often as costly and as significant as many of the features of direct compensation.

The Bonus

Among the major corporations in this survey there is no disagreement over the desirability, the need, or the feasibility of bonus plans. Almost all (97 percent) have them in effect for employees in service in the United States. And the majority of these companies extend the plans, or plans based on the same concepts, to employees in service abroad (97 percent to USE's, 88 percent to TCN's, 80 percent to LN's). There are marked differences, however, in the manner in which they are administered, the results upon which the pay-outs are based, and the form of the pay-outs themselves.

What we are discussing here are performance bonuses, voluntarily paid by companies in recognition of performance, and as an incentive toward future productivity. In some countries there are traditional bonuses, compelled by competitive practice or legislated and mandated, even if the employing company is in a loss position. They are not bonuses at all—but simply supplements to income. These are often Christmas bonuses, Easter bonuses, and vacation bonuses—usually equal to one-month's salary. A few countries have laws mandating profit sharing. All of those "so-called" bonuses are ignored for the purpose of this report. The bonuses we are concerned with here are performance-related and designed to encourage increased productivity and efficiency.

The vast majority of the firms make an attempt to measure the individual productivity of the bonus-eligible employees and base the resulting pay-out on the results of that measurement (81 percent for USE's, 85 percent for TCN's, 80 percent for LN's). The bonus pool created by the majority, however, is based, at least in part, on worldwide results, and many firms also consider the results obtained by the local company (53 percent for USE's, 57 percent for TCN's, 46 percent for LN's). Only a minority consider regional results (29 percent - USE's, 28 percent - TCN's, 22 percent - LN's). A few, because of the manner in which their companies are organized, use divisional, product or business group results for the purpose of determining the bonus pool (3 percent for USE's, TCN's, and LN's). The majority administer their performance bonuses in pretty much the same way for all classes of personnel abroad. Only 18 percent administer them differently for TCN's and 25 percent for LN's.

The qualifying criteria for participants in the bonus plan are generally based on organizational level and are limited to persons in a position to have a palpable effect on the business results achieved. Organizational level is usually measured by the structure of the organization, by salary grade (or point factors where that system of job evaluation is used). Length of service is also considered by some companies—but the predominant item is performance and impact on the results obtained.

The Pay-Out

The majority of the bonuses are paid in the form of current cash income. Deferred compensation is a minority practice; but a significant minority split the bonus payment between current cash and a deferred-pay arrangement. Plans that make a direct payment in stock are also in the minority, but almost half of the plans offer stock options.

The various pay-out mechanisms of the plans for each of the three classes of personnel and the prevalence of each method are tabulated in Table 15.

Table 15: Bonus Pay-out Methods

Method	Percent of Companies[1] USE's	TCN's	LN's
Current cash income	71%	78%	77%
Deferred income	16	11	12
Both deferred and current income	33	22	21
Corporate stock	23	13	11
Stock options	49	42	37
Stock appreciation rights	26	16	14

[1]Details add to more than 100 percent because of duplicate responses.

Pensions and Insurance

Virtually every company of any size has some form of retirement plan, as well as group insurance coverage for its employees. Making provision for nonproductive retirement years and insuring oneself against the financial consequences of misfortune are both elemental needs of employees everywhere. If a company does not make provision in the compensation program for these needs, the employees must do so for themselves. It is far more cost-effective for the company to arrange group coverage with an insurer. The few companies that have not made such provisions in their compensation programs have few expatriates and arrange these matters on an individually negotiated basis.

Pensions

Company decisions in respect to pension programs are, therefore, not whether to install or continue such plans, but rather how they should be structured. Should there be one universal plan, separate plans for each class of employee (USE's, TCN's, LN's), separate plans for each nationality, separate plans for each subsidiary, or a mixture of some or all of these? Are the plans contributory or noncontributory (i.e., does the employee pay for the coverage, in part, or does the company pay the full cost?) Since the resulting annuity is a function of the percentage of the employee's earnings, are over-base supplements included in the earnings for this purpose?

The way the companies in this survey answered those questions is reflected in Table 16.

Table 16: How Pension Plans Are Administered

Method of Coverage	Percent of 123 Companies
Basic Plan	
All expatriates are on home country plans, LN's are on local plans	33%
Separate plans are in effect for each nationality	28%
There is one universal plan in effect for all TCN's, regardless of nationality	24%
All plans are based on the U.S. plan and are administered universally	5%
No response	10%
Contributions	
The plans are noncontributory	24%
The plans are contributory	4%
Some plans are contributory, some are not	63%
No response	9%

Insurance

The type of insurance coverage the companies have arranged for each of the three classes of employees is reflected in Table 17.

Amenities, Perquisites, Extended Leaves, Rest and Recreation

There was a time, in the not too distant past, when (myth had it) U.S. expatriates lived like mini-barons overseas. A houseful of servants could be had for just a few dollars per day, commodious accommodations were available at discount prices, and the style of life was most gracious. The heat (or cold), the dirt, the frustrations of doing business in an unlearnable language, the power outages, the torrential rains (or prolonged droughts), the isolation, all could be easily borne under such circumstances, so it was believed. While a favored few probably did live that way, a great many did not. In any event, though the myth persists, the reality is far different today.

Nevertheless, there are a great many amenities and perquisites available to the expatriate which are unique to foreign service. But they are based on recognized needs, not mindless generosity. Among the companies participating in this survey, a larger percentage provides some of the amenities than was the case in the survey

Table 17: Types of Insurance Coverage

Type	Percentage of 123 Companies[1] USE's	TCN's	LN's
Life insurance	98%	88%	75%
Major medical	98	81	61
Hospitalization	98	84	68
Accident	94	81	67
Travel	89	83	72
War risk	54	31	16

[1]Details add to more than 100 percent because of multiple responses.

conducted a decade ago. But there is a marked change in emphasis, most notably in the provisions for "home leave."

Home Leave

Several decades ago, the normal tour of duty abroad was about three years, primarily because of the length of time it took to get there and return. Reliable air transport removed the necessity for prolonged tours of duty and the concomitant long leave just about disappeared; but, at the same time, vacation practices in the United States and throughout the world have become more generous. As a result, more and more companies are now considering the "home leave" to be the length of vacation the employee would get in his home country. In some companies, the leave accrual rate varies by location of the foreign assignment, and in some the leave is accrued in accordance with the rate in effect in the host country. But the vast majority of companies pay for the transportation (or the cost) of the employee and his or her family to their points of origin. However, 9 percent of the companies specify that they provide the tickets only—not cash in lieu thereof.

Local Leave

Where the tour of duty is only one year, as is now the predominant case, the need for local leaves disappears. But it still may be taken in some of the companies. The plans of 19 percent of the companies specifically prohibit local leave for their expatriates, another 10 percent base the local leave on the home-country plan, 4 percent on the host-country plan, and special rules exist in some 15 percent of the companies so that either local or home leave may be taken, not both, and variable plans are in effect in another 6 percent of the firms. Rest and recreation (R and R) leave is granted by 39 percent of the firms, in addition to regular leaves, when the expatriate is assigned to a job site that entails unusual hardship or where severe working conditions exist.

Table 18 shows a comparison between the results of the survey in 1972 and that of 1982 in the direction of these trends.

Table 18: Comparison of Home Leave Plans, 1972 as Against 1982

	Percentage of	
Type of Leave	*123 Companies 1982*	*267 Companies 1972*
Companies with a home-leave plan	92%	98%
Transportation home provided	87	95
Modal accrual rate per month	2.5	1.4
Interval between leaves, 1 year	80	39
Interval between leaves, 2 years	7	51
Plans extended to TCN's	89	54

Amenities and Perquisites

Most of the amenities and perquisites provided under formal plans are designed to overcome disincentives to foreign service, or to assist the expatriate with problems that can seriously affect productivity. One of the most important of these is the educational assistance allowance for children. It is a powerful negative in considering an offer of service abroad to realize that one must tear one's children out of schools found to be satisfactory and place them in schools of unknown quality, which use different curricula and follow different programs, possibly in a foreign language. This objection is overcome in part by the assurance that there are American, or at least international, schools nearby with programs and curricula compatible with those extant in the United States, and the instruction is in English. However, these are not publicly financed, and the tuition is high.

Another problem of concern is the distance between the employee at the job site and the members of the family left behind. The cost of travel home to handle a family crisis is a real dissuader; and will the necessary leave be granted?

Still another is the cost of adapting to the new living quarters abroad, furnishing them, and obtaining the necessary equipment and appliances with as little disruption to the accustomed life-style as possible. There are few posts abroad where the electrical current is identical to that used in the United States. Even with transformers and adapters, the U.S.-made appliances do not work as efficiently as they should. It is preferable to leave the U.S.-made equipment behind in storage and obtain that which is designed for the local energy supply—a heavy outlay of cash.

These and other problems are covered by some of the special plans companies have adopted to help the employee adjust and to remove, or at least reduce, some concerns. The principal ones are shown in Table 19.

Table 19: Principal Amenities

	Percentage of Companies[1]		
Amenity	*USE's 123*	*TCN's 110*	*LN's 123*
Education allowance for children	96%	94%	9%
Emergency leave	94	91	13
Accounting, tax-return preparation	94	84	7
New post settling-in allowance	70	69	9
Dental care	56	39	7
Company auto	54	49	17
Recreation facilities (clubs)	36	35	10

Table 19: Principal Amenities (continued)

Amenity	Percentage of Companies[1] USE's 123	TCN's 110	LN's 123
Personal auto shipment	13	10	n.a.
Legal assistance	7	7	0
Foreign service kit allowance	7	7	1
Other[1]	6	6	0

[1]Other includes:-

Financial assistance to purchase a car;

Protection against loss on sale of home, appliances and personal automobile on departure;

Language training for employee and family;

Interest-free loans to help in outfitting employee and family and new quarters abroad;

Transportation for family members left at home to visit employee while abroad (restricted).

Improved Benefits for TCN's

It is generally conceded that TCN's are playing a much more important role in the operations of multinational corporations than they have in the past. Whether this is the case or not, TCN's have been given more consideration in corporate amenity planning. Table 20 shows the degree of increased participation TCN's have been accorded by the firms included in this survey, when compared with the 1972 survey.

Benefits on Returning Home

The financial problems facing a repatriate are similar and just about equal to those facing a new expatriate for the first time. He or she has to find temporary, and usually very expensive, accommodations while searching for a permanent home. In that process, the employee is shocked by the prices of newly constructed or established houses, the astronomical interest rates, and the estimates of the cost of outfitting any home the family selects. Unless the repatriates have amassed considerable capital while abroad, these outlays can wipe out any liquid assets they may have and put them in debt.

Table 20: Comparison of TCN Participation in Amenity Plans, Surveys Conducted in 1972 and 1982

Amenity	TCN Participation Percentage of Companies 110 Companies 1982	267 Companies 1972
Education allowance for children	94%	47%
Paid emergency leave	91	41
Settling-in allowance	69	24
Club memberships	35	19

Recognizing these money problems, most companies have adopted some plans to reduce those burdens. The majority (89 percent) arrange to ship the repatriates' household furniture and equipment back to the home country at company expense. An additional 10 percent (8 percent for TCN's) do so but place limits on the amount (modally, 10,000 lbs.). The majority (98 percent for USE's, 96 percent for TCN's) provide temporary living quarters at company cost, while the repatriate is seeking a permanent residence (modally, 30 days). They also offer assistance in the purchase of a new home (76 percent for USE's, 63 percent for TCN's). The assistance is usually confined to the following:

Assistance	Percentage of Companies Extending Assistance 123 Companies USE's	110 Companies TCN's
Interest-free or low-interest loans	30%	25%
Estate agent's fee	59	47
Legal assistance	55	48

Capital Appreciation (on Housing) Allowances

With the advent of skyrocketing values of new and used housing, many repatriates learn that their net worth would have been considerably enhanced had they refused the foreign assignment and remained at home. As a consequence, companies have been seeking means of offsetting this apparent loss. While the loss is only on paper while the employees are overseas, it is very real when they attempt to reestablish themselves in the home country.

The plans adopted so far, by only 4 percent of the firms for USE's and 3 percent for TCN's, vary considerably—from paying a lump sum based on a percentage of base salary to providing a differential between the mortgage interest rate the employee enjoyed before departing for the overseas assignment and the one obtainable on return. Another 14 percent of companies attempt to assist in other ways. Here are some of those approaches:

(1) Cover the closing costs on the new residence;

(2) Provide a mortgage interest rate differential in hardship cases only;

(3) Pay all of the costs of the house-hunting trip;

(4) Provide a mortgage rate differential plus a resettlement allowance equal to three-fourths of the monthly base salary;

Two Examples of Housing Appreciation Allowance

(1) All returning USE's, except those who were reimbursed under a rental management plan, are eligible for an allowance designed to compensate for excessive increases in housing costs after January 1, 1973.

For each 1 percent increase in the Bureau of Labor Statistics Home Ownership Index during the period of foreign service after January 1, 1973, which is in excess of 2 percent per year, the repatriate will receive 20 percent of the first $2,500 and 10 percent of the next $1,500 of the monthly base salary in effect on December 31, 1972, or the month prior to departure if later. Maximum is 6 months' base salary, or $6,000; and the amount is reduced by any gain realized in the sale of an owned residence in the foreign location.

(2) The company provides a differential salary supplement to employees relocating within the United States at company request based on the difference in (a) value of the same size house in the new versus the old location, (b) mortgage interest rates, and (c) real estate taxes. Value is determined by consulting the Runzheimer & Co. Standard Housing Characteristics Value (a national composite) of the new home in the old location. Size, as measured by the actual heated living-room square footage, is the test of value, not market value.

(5) Provide a transfer supplement equal to 11 percent of the annual base salary rate - minimum = $4,000, maximum = $7,000;

(6) Pay the transfer tax, title search, credit check, appraisal, inspection and other closing costs;

(7) Pay a resettlement allowance of $900 for employee and spouse, plus $450 for each child, maximum - $3,600;

(8) Protect employee from loss on the sale of appliances and automobile, plus a resettlement allowance;

(9) Pay the difference between the old and the new mortgage interest rate for each of three years;

(10) Pay a mortgage-rate differential, plus one month's salary for incidentals.

(11) In general, the policy for TCN's is to handle the repatriation problems in accordance with the home-country company plans.

Appendix A
Foreign Service Premium Variable Rates—USE's

OF THE 127 companies responding to this survey, 81 reported the amounts of their variable foreign service premium rates throughout the world. Of these, 20 companies have "formula" plans, which are not directly comparable to the straight percentage plans which have been tabulated in the table which follows.

Of the 61 companies with straight percentage, but variable percentages by country or location, 24 set maxima either in nominal dollar limits or in limits to the amount of salary which will bear the premium.

Countries with fewer than five companies reporting have been ignored. If five or more companies maintain USE's in a country, and two or more have set maxima, those maxima are shown in Table A-1.

Since the average often results in a number no company uses, the median (middle case) has been used as the average. Where that is also the mode (most frequent practice), the average is followed by an asterisk (*). It may be of interest to note how frequently the 15 percent premium appears, and the maximum premium-bearing salary is $50,000 (.15 x $50,000 = $7,500).

Table A-1: USE's—Foreign Service Premium Variable Rates

	Percent Premium				*Maximum Premium (Dollars)*			
Country	*Number of Companies*	*Minimum*	*Maximum*	*Average*	*Number of Companies*	*Minimum*	*Maximum*	*Average*
North America								
Alaska	11	0%	25%	15%*	5	$ 2,250	$ 8,400	$ 4,500
Canada	34	0	25	10	10	2,400	8,000	6,000
Mexico	51	0	30	15*	20	1,500	14,400	6,975

Table A-1: USE's—Foreign Service Premium Variable Rates (cont.)

Country	Percent Premium				Maximum Premium (Dollars)			
	Number of Companies	Minimum	Maximum	Average	Number of Companies	Minimum	Maximum	Average
Central America								
Costa Rica	13	0	30	15*	3	7,500	9,000	9,000*
El Salvador	6	5	40	15*	2	1,500	20,000	—
Guatemala	16	5	35	15*	5	1,500	18,000	12,500
Honduras	9	10	30	15*	2	3,000	15,000	—
Nicaragua	9	10	35	20	2	3,000	17,500	—
Panama	20	0	30	15*	11	3,000	12,000	7,500*
Caribbean								
Bahama	11	0	15	15*	2	7,500	9,000	—
Haiti	8	0	30	20	3	3,000	18,000	15,000
Jamaica	9	0	30	20	4	6,000	15,000	13,800
Puerto Rico	25	0	25	15*	12	1,500	12,000	7,750
Trinidad	11	0	30	15	4	1,500	12,900	9,750
Virgin Islands	7	0	20	15*	3	1,500	7,500	4,500
South America								
Argentina	34	0	35	15*	15	1,500	14,400	7,500
Bolivia	10	15	35	25	4	4,500	17,500	14,650
Brazil	44	0	50	15*	18	1,500	21,000	9,000
Chile	23	0	30	15*	9	6,000	15,000	7,500*
Colombia	27	0	40	25	12	4,500	18,000	9,450
Peru	20	0	50	15*	8	3,000	15,000	8,250
Venezuela	36	0	40	15*	15	1,500	19,200	9,900
Scandinavia								
Denmark	23	0	25	15*	8	5,000	9,900	7,500*
Finland	11	0	25	10*	3	5,000	7,500	7,500*
Iceland	9	10	25	10*	1	—	—	—
North Sea	8	2	30	20	4	6,000	12,000	8,500
Norway	21	0	25	15*	8	5,000	12,000	8,250
Sweden	16	0	25	10*	7	5,000	9,600	7,500*
British Isles	46	0%	36%	15*	18	$ 3,000	$12,000	$ 6,975*
West Europe								
Belgium	35	0	25	15*	13	5,000	12,000	7,500*
France	39	0	35	15*	15	4,500	12,000	7,500*
Germany	39	0	35	15*	15	4,500	14,400	7,500*
Netherlands	31	0	30	15*	9	5,000	14,400	7,500*
Switzerland	30	0	25	15*	13	5,000	9,900	7,500
Southern Europe								
Greece	31	0	33	15*	11	5,000	12,000	7,500*
Italy	35	0	25	15*	15	5,000	12,000	7,500*
Portugal	18	0	25	15*	7	5,000	12,000	9,000
Spain	34	0	25	15*	14	6,000	12,000	7,500*
Eastern Europe								
USSR, etc.	17	5	50	35	4	12,000	24,000	17,575
Near East								
Egypt	24	10	50	30*	10	7,500	18,000	15,000*
Iraq	6	25	40	40*	3	16,000	20,000	20,000*
Israel	6	0	40	20	1	—	—	—
Jordan	12	10	40	25*	4	7,500	14,232	12,850
Lebanon	12	20	55	25	3	14,400	20,000	20,000*
Saudi Arabia	32	10	50	35*	13	7,500	24,000	17,500*
Syria	9	15	50	30	3	7,500	18,000	15,000
Turkey	17	5	45	30*	4	15,000	18,000	15,750
North Africa								
Algeria	11	10	50	25	3	6,000	21,000	15,000
Libya	10	20	50	40*	2	16,000	20,000	—
Morocco	15	0	50	15*	7	7,500	14,400	9,000
Tunisia	12	0	50	15*	3	7,500	9,900	7,500*

Table A-1: USE's—Foreign Service Premium Variable Rates (cont.)

Country	Percent Premium				Maximum Premium (Dollars)			
	Number of Companies	Minimum	Maximum	Average	Number of Companies	Minimum	Maximum	Average
East Africa								
Kenya	18	0	50	15*	7	5,000	12,000	7,500
Malagasy Rep.	5	0	50	15*	1	—	—	—
Somolia	6	15	50	30	1	—	—	—
Tanzania	8	15	50	30*	2	20,000	24,000	—
Uganda	5	20	50	30	1	—	—	—
Zambia	11	15	50	25	2	19,800	20,000	—
West Africa								
Cameroon	10	15	50	30	4	4,500	15,000	10,875
Ghana	10	0	50	25	1	—	—	—
Guinea	6	20	50	35	2	15,900	20,000	17,950
Ivory Coast	21	5	50	30*	9	1,500	18,000	15,000*
Liberia	12	20	50	35	4	6,000	21,000	20,000*
Nigeria	23	15	55	40*	6	6,000	24,000	20,716
Senegal	10	5	50	25	3	1,500	15,000	15,000*
Central Africa								
Gabon	9	15	50	30	3	4,500	21,000	17,500
Zaire	9	20	50	35*	4	6,000	19,800	17,500*
South Africa								
South Africa	18	0	50	15*	10	4,000	12,000	7,500
Far East								
Hong Kong	34	0	30	15*	15	1,500	14,400	7,500*
India	16	15	45	30	6	16,500	21,600	18,516
Korea	23	0	35	15*	10	3,000	14,232	9,500
Malaysia	20	0	60	15*	9	5,000	18,000	9,000*
Pakistan	12	15	45	30	3	7,500	21,000	17,500
Singapore	38	0	30	15*	14	1,500	14,400	9,000*
Taiwan	25	10	30	25*	9	5,000	15,000	12,500*
Thailand	19	10	50	20	6	10,500	15,000	13,800
Pacific								
Australia	37	0	45	15*	14	4,000	14,400	7,500*
Indonesia	30	10	50	30*	8	7,500	21,600	15,750
Japan	43	0	53	15*	19	1,500	14,400	7,500*
Philippines	33	5	40	25*	12	7,500	16,800	11,250

Appendix B
Foreign Service Premium Formula Systems

THERE ARE almost as many formulas in the administration of formula foreign service premiums as there are companies that have adopted them. Most of them can be characterized as "step" plans, that is, the premium rate declines as the premium-bearing salary rises. For example, one company grants a premium of $3,200 per year based on a salary of $20,000 per year, which sum declines in steps to $400 at a salary of $40,000 per year (or the equivalent in a TCN's home currency). Another company pays 25 percent on the first $30,000 of salary per annum, 5 percent on the next $10,000—with a maximum of $8,000; and a third company pays 13½ percent on salaries up to $40,000, 5 percent on the next $45,000, with a maximum of $7,650.

Another approach is a regional step plan. Fifteen percent is granted to expatriates transferring to intercontinental locations; 10 percent for intracontinental transfers. A few are simpler—10 percent to a maximum of $4,000 per annum except in Canada and Mexico, where the maximum is $2,000.

But some of the regional step plans are more complex. To illustrate, one company has a plan providing for a

"base premium," which it pays all USE's—regardless of the location of the assignment—as follows:

25 percent on the first $30,000	Maximum	$7,500
	Minimum	5,500
10 percent on the next 10,000	Maximum	1,000
5 percent on the next 10,000	Maximum	500
total		$9,000

To that they add a "variable location premium" of between 0 and 20 percent of base salary up to a maximum of $30,000. The variable premiums rise in five steps (0, 5, 10, 15 and 20 percent), depending on the perceived degree of hardship in the assigned area. TCN's receive the same premiums (in the home-country equivalent currency amounts) if their transfers were intercontinental. For intracontinental transfers, TCNs' premiums are calculated in accordance with the following schedule:

	Maximum
15 percent on first $30,000	$4,500
10 percent on next 10,000	1,000
5 percent on next 10,000	500
Total	$6,000

And, if a TCN is transferred to a neighboring country where the culture change is minimal, there may be no premium for him.

An even more complex plan is the following: the company's operating areas are divided into seven groupings determined by similarity of climate, language and culture:

Group 1 United States, Canada, United Kingdom, Australia and New Zealand
2 Europe
3 South Africa and Rhodesia (Zimbabwe)
4 Latin America
5 Asia and the Pacific (excluding ANZAC)
6 Africa (excluding South Africa and Rhodesia)
7 Middle East

Transfers between countries in the same group yield no premium; transfers between Groups 1, 2 and 3 yield 10 percent; all other transfers carry 15 percent.

Another firm has taken that concept one step further. It pays what it calls an FSP for willingness to accept the foreign assignment, and a location premium in recognition of different and sometimes more difficult living conditions. The FSP is 20 percent on the first $15,000 of annual salary, plus 5 percent on the excess to a maximum premium of $5,500. The location premium is stated in flat dollar amounts that do not vary by salary.

And yet another firm has developed a plan which involves three premiums—a standard premium of 25 percent for all expatriates worldwide; an "affinity premium" varying from 0 to 20 percent for transfers within regions and from 5 to 25 percent for transfers between regions. The regions are five in number, encompassing the forty-six countries in which the company has operations. The third premium is an area allowance carrying premiums of from 5 to 25 percent. A series of tables reflect the premiums by individual home countries and the maxima in the home-country currency of each nationality.

And yet another approach is to apply the premium rate to the midpoint of the salary grade in which the expatriate's salary falls, or to which his or her job is rated.

Appendix C
How the U.S. State Department Rates Hardship—The Post Allowance

EMPLOYEES of the United State government serving abroad receive payments similar to the foreign service premium or hardship allowances granted by private industry. The payments vary according to location of the assignment, depending on the rating given that location by the Allowances Staff of the State Department. Those ratings are the result of a painstaking analysis. Each foreign post is evaluated in terms of: (1) the physical environment (isolation, climate, altitude, natural hazards, etc.); (2) living conditions (sanitation, disease, hospital and medical facilities, housing, food, education, recreation, social amenities, etc.); (3) personal security (political violence, crime, harassment). There are 14 general categories involved in each of those three major categories, and each of those may be further subdivided, so that 125 factors are considered in all.

The resulting analysis and scoring yields five possible grades of post allowance 0, 10, 15, 20 and 25 percent (the maximum). Most corporations consider the resulting allowances to be short of needs. For example, at mid-1981 the allowance for Argentina was 0 percent, Saudi Arabia 25 percent, Afghanistan 25 percent. Appendix A establishes how short those allowances might be considered.